



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Financial Statement Audit

Department of Health Services

Division of Behavioral Health
Services—Title XIX and XXI Contract
Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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Department of Health Services
Division of Behavioral Health Services
Title XIX and XXI Contract
June 30, 2004

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

Catherine R. Eden, Ph.D., Director
Department of Health Services

We have audited the accompanying Schedules of Revenues, Expenditures, and Encumbrances for the Department of Health Services, Division of Behavioral Health Services, Title XIX and XXI Contract for the year ended June 30, 2004. These schedules are the responsibility of the Department and its Division of Behavioral Health Services' management. Our responsibility is to express an opinion on these schedules based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentations. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Schedules of Revenues, Expenditures, and Encumbrances were prepared for the purpose of complying with contract requirements between the Arizona Health Care Cost Containment System and the Department of Health Services, Division of Behavioral Health Services, as discussed in Note 2, and are not intended to be a presentation in conformity with U.S. generally accepted accounting principles.

In our opinion, the Schedules of Revenues, Expenditures, and Encumbrances referred to above present fairly, in all material respects, the revenues, expenditures, and encumbrances of the Department of Health Services, Division of Behavioral Health Services, Title XIX and XXI Contract, on the basis of accounting described in Note 2.

This report is intended solely for the information and use of the Department of Health Services and is not intended to be and should not be used by anyone other than the specified party. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport
Auditor General

September 29, 2004

Department of Health Services
Division of Behavioral Health Services
Title XIX
Schedule of Revenues, Expenditures, and Encumbrances
Year Ended June 30, 2004

	<u>Revenues/ Expenditures</u>	<u>Encumbrances</u>	<u>Total</u>
Revenues			
AHCCCS capitation:			
State appropriations for match	\$ 167,033,128		\$ 167,033,128
Federal grant revenues	<u>402,083,446</u>		<u>402,083,446</u>
Total revenues	<u>569,116,574</u>		<u>569,116,574</u>
Expenditures			
Program costs:			
Capitation paid	522,668,525	\$ 4,821,738	527,490,263
Fee for services	16,755,103		16,755,103
Medicaid special exemption payments	<u>8,811,455</u>		<u>8,811,455</u>
Total program costs	<u>548,235,083</u>	<u>4,821,738</u>	<u>553,056,821</u>
Administrative costs:			
Personal services	4,648,367		4,648,367
Employee related	1,195,561		1,195,561
Professional and outside services	1,318,000	197,210	1,515,210
In-state travel	66,091		66,091
Out-of-state travel	999		999
Other operating	1,245,114	68,034	1,313,148
Equipment	51,460	7,579	59,039
Noncapital equipment	139,470	438	139,908
IT support	430,814		430,814
Indirect costs	<u>1,029,995</u>		<u>1,029,995</u>
Total administrative costs	<u>10,125,871</u>	<u>273,261</u>	<u>10,399,132</u>
Total expenditures/encumbrances	<u>558,360,954</u>	<u>5,094,999</u>	<u>563,455,953</u>
Revenues over (under) expenditures/ encumbrances	<u>\$ 10,755,620</u>	<u>\$ (5,094,999)</u>	<u>\$ 5,660,621</u>

See accompanying notes to schedules.

Department of Health Services
Division of Behavioral Health Services
Title XXI
Schedule of Revenues, Expenditures, and Encumbrances
Year Ended June 30, 2004

	<u>Revenues/ Expenditures</u>	<u>Encumbrances</u>	<u>Total</u>
Revenues			
AHCCCS capitation:			
State appropriations for match	\$ 3,062,051		\$ 3,062,051
Federal grant revenues	<u>10,297,682</u>		<u>10,297,682</u>
Total revenues	<u>13,359,733</u>		<u>13,359,733</u>
Expenditures			
Program costs:			
Capitation paid	12,167,409	\$ 53,210	12,220,619
Fee for services	270,397		270,397
Medicaid special exemption payments	<u>178,853</u>		<u>178,853</u>
Total program costs	<u>12,616,659</u>	<u>53,210</u>	<u>12,669,869</u>
Administrative costs:			
Personal services	407,144		407,144
Employee related	102,812		102,812
Professional and outside services	22,424	1,651	24,075
In-state travel	1,262		1,262
Other operating	15,447	1,311	16,758
Noncapital equipment	445		445
IT support	11,743		11,743
Indirect costs	<u>87,451</u>		<u>87,451</u>
Total administrative costs	<u>648,728</u>	<u>2,962</u>	<u>651,690</u>
Total expenditures/encumbrances	<u>13,265,387</u>	<u>56,172</u>	<u>13,321,559</u>
Revenues over (under) expenditures/ encumbrances	<u>\$ 94,346</u>	<u>\$ (56,172)</u>	<u>\$ 38,174</u>

See accompanying notes to schedules.

Department of Health Services
Division of Behavioral Health Services
Title XIX and XXI Contract
Notes to Schedules
June 30, 2004

Note 1 - Reporting Entity

The Department of Health Services, Division of Behavioral Health Services is a contractor with the Arizona Health Care Cost Containment System (AHCCCS) to provide behavioral health services to eligible enrollees of the AHCCCS program who are participating in the federal Title XIX and XXI programs. The Division of Behavioral Health Services is responsible for administering the contract. Fiscal responsibility for the Division remains with the Department of Health Services and, ultimately, with the State of Arizona. Each schedule includes only that portion of the Department of Health Services, Division of Behavioral Health Services' operations that are attributable to the applicable Title XIX and Title XXI contract with AHCCCS.

Note 2 - Basis of Accounting

Annually, the Division is required to obtain an audit of contract revenues, expenditures, and encumbrances. For purposes of complying with the contract and to present revenues, expenditures, and encumbrances on a basis consistent with the State's accounting system, the Division has defined revenues, expenditures, and encumbrances as follows:

Revenues—The Division receives monthly capitation payments from AHCCCS that are comprised of state matching monies and federal grant monies. AHCCCS capitation payments are recognized as revenues when received.

Expenditures—The Division uses monies received from AHCCCS to pay contracted service providers and administrative costs incurred by the Division for administering the contract. Expenditures are recognized when goods or services are received and paid from revenues recognized during the year ended June 30, 2004. Expenditures paid from excess revenues of prior periods are reported to AHCCCS in separate unaudited schedules prepared by the Division.

Encumbrances—Encumbrances are recognized when goods or services have been ordered but have not been received as of June 30.